

Message Text

UNCLASSIFIED

PAGE 01 LONDON 18080 01 OF 04 031035Z

ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 AID-05 CIAE-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-05 CEA-01 PA-02 PRS-01
DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /102 W
-----125271 031110Z /23

O R 031017Z NOV 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 9933

TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 04 LONDON 18080

USEEC ALSO FOR EMBASSY

USOECN ALSO FOR EMBASSY

USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON,UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD OCT.27-NOV. 2

SUMMARY: THE CHANCELLOR'S MINIBUDGET CORRECTED FOR FIS-
CAL DRAG AND SHOULD PROVIDE A TOUCH OF STIMU-

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 18080 01 OF 04 031035Z

LUS TO THE ECONOMY BESIDES. (SEE LONDON 17699, 17700,
17701, AND 17702.) THE CHANCELLOR'S MESSAGE, HOWEVER,
FAILED TO AMEND SIGNIFICANTLY THE U.K.'S FOREIGN EXCHANGE
CONTROL REGULATIONS, WHICH REINFORCED CONCERN IN FINAN-
CIAL MARKETS AND IN THE PRESS THAT CAPITAL INFLOWS WOULD
SWELL THE MONEY SUPPLY BEYOND THE GOVERNMENT'S TARGETS.
THE GOVERNMENT, HOWEVER, ANNOUNCED ON MONDAY THAT STER-

LING WOULD BE ALLOWED TO FLOAT FREELY AND THUS CUT OFF SUCH INFLOWS. (SEE LONDON 17883.) THE RISE IN THE POUND AND FINANCIAL MARKETS WHICH FOLLOWED ON THIS NEW POLICY WAS TEMPERED BY NEWS THAT THE MINERS HAD REJECTED AN OFFER THAT COULD BE CONSTRUED TO BE WITHIN THE GOVERNMENT'S PAY GUIDELINES. OFFICIAL RESERVES INCREASED AS WIDELY EXPECTED BY OVER \$3 BILLION. THE CBI'S LATEST INDUSTRIAL TRENDS SURVEY INDICATES NO FURTHER DECLINE IN BUSINESS OPTIMISM, SLIGHT EASING IN COST PRESSURE AND SPREADING EXCESS CAPACITY. END SUMMARY.

1. STERLING. THE GOVERNMENT'S DECISION TO ALLOW STERLING TO FIND ITS OWN LEVEL IN THE MARKETS (SEE LONDON 17883) FOLLOWED ON THE HEELS OF THE OCTOBER 26 BUDGET. WHILE NOT UNEXPECTED, THE TIMING THREW THE MARKETS INTO CONFUSION ON MONDAY AS THE POUND WENT FROM FRIDAY'S CLOSE OF \$1.7772 TO OVER \$1.84. THE POUND CONTINUED TO APPRECIATE ON TUESDAY MORNING TO \$1.8640. AT THAT LEVEL, DEALERS REPORTEDLY SAW GREATER POTENTIAL FOR APPRECIATION IN THE DM, SWISS FRANC AND YEN. THE OVERALL VOLUME OF TRADING WAS HEAVY.

ACCORDING TO DEALERS, THE BANK OF ENGLAND WAS NOT IN THE MARKET, EXCEPT (ACCORDING TO ONE DEALER) IN A VERY SMALL WAY TO TEST THE DEGREE OF HEAT BEHIND THE FIRE, BUT CERTAINLY NOT TO INFLUENCE THE DIRECTION OF TRADING. THEN CAME THE ANNOUNCEMENT THAT THE MINERS HAD VOTED

UNCLASSIFIED

PAGE 03 LONDON 18080 01 OF 04 031035Z

AGAINST THE PROPOSED PRODUCTIVITY WAGE INCREASES WHICH THREATENED THE GOVERNMENT'S CURRENT WAGE STRATEGY. THE RESULT WAS A 3-CENT FALL IN THE POUND, TO AROUND \$1.8350. THE U.K. BANKS WERE TERMED ESPECIALLY UNSETTLED AS A RESULT OF THE MINERS' NEGATIVE VOTE; CONTINENTAL BANKS APPARENTLY LESS OBVIOUSLY CONCERNED IN THE SHORT TERM. NO PARTICULAR ACTIVITY WAS CITED IN THE FORWARD MARKETS EXCEPT THE IMPACT OF THE FLATTENING YIELD CURVE ON 6 AND 12-MONTH MONEY, NARROWING VERY SHARPLY THE SPREAD BETWEEN BID AND OFFER QUOTATIONS ON 6 AND 12 FORWARD STERLING QUOTATIONS.

WERE IT NOT FOR THE MINERS' VOTE, MOST DEALERS CONSIDER STERLING NOW WOULD BE TRADING IN A RANGE SOMEWHERE BETWEEN \$1.86 AND \$1.88 RATHER THAN AT \$1.84. IN THE SHORT RUN, ADDITIONAL SMALL GAINS ARE CONSIDERED POSSIBLE IF THE DOLLAR SHOULD WEAKEN FURTHER. LOOKING FURTHER AHEAD, DEALERS SPECULATE (AND SPECULATION IS PROBABLY THE RIGHT WORD) THAT STERLING WILL CONTINUE TO TRADE IN A \$1.85 RANGE IN THE FIRST 6 MONTHS OF 1978 BEFORE BEGINNING TO TAPER OFF. THEY DO NOT ASSUME ANY APPRECIABLE RELAXATION OF EXCHANGE CONTROLS. THEY ADD THAT NEAR TERM DEVELOPMENTS WILL DEPEND TO SOME EXTENT

ON THE DEGREE OF CENTRAL BANK INTERVENTION -- IF ANY --
AND WHETHER FOREIGN INVESTORS PERCEIVE ANY FURTHER MEAN-
INGFUL INCREASE IN THE STERLING EXCHANGE RATE.
CONCERNING STERLING IN THE LONGER TERM, DEALERS CITE

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 18080 02 OF 04 031039Z
ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 AID-05 CIAE-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-05 CEA-01 PA-02 PRS-01
DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /102 W
-----125431 031111Z /23

O R 031017Z NOV 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 9934
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 02 OF 04 LONDON 18080

AS RISKS THE CONTINUED INFLATIONARY DIFFERENTIAL BETWEEN
THE U.K. AND ITS TRADING PARTNERS; REDUCED INTERNATIONAL
COMPETITIVENESS; 15 PERCENT PLUS WAGE SETTLEMENTS; AND
THE DETERIORATION OF THE NON-OIL TRADE BALANCE THAT MUST
BE EXPECTED AS THE RESULT OF EXPANSIONARY ELEMENTS IN
LAST WEEK'S MINIBUDGET AND MEASURES THAT MAYBE TAKEN IN
THE BUDGET NEXT APRIL. ALL OF THESE ARE CONSIDERED PO-
TENTIAL NEGATIVE FACTORS TENDING TO OFFSET THE FAVORABLE
BALANCE OF PAYMENTS IMPACT OF NORTH SEA OIL.

2. CBI INDUSTRIAL TRENDS SURVEY. THE CONFEDERATION OF
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 18080 02 OF 04 031039Z

BRITISH INDUSTRY (CBI) SUMMARIZES THE RESULTS OF ITS
LATEST QUARTERLY SURVEY AS FOLLOWS:

- A. THERE APPEARS TO HAVE BEEN NO FURTHER DECLINE IN
BUSINESS CONFIDENCE, BUT OPTIMISM ABOUT GENERAL
PROSPECTS IS NOT WIDESPREAD.
- B. THE VOLUME OF OUTPUT AND ORDERS HAVE BEEN WEAK
IN THE PAST FOUR MONTHS AND BELOW-CAPACITY WORK-
ING HAS BECOME MORE WIDESPREAD.
- C. HOWEVER, NEW ORDERS AND OUTPUT ARE EXPECTED TO
STRENGTHEN OVER THE NEXT FOUR MONTHS.
- D. THERE IS EVIDENCE OF A FURTHER SLIGHT EASING IN
COST PRESSURES AND OF A MORE PRONOUNCED SLOWING
IN OUTPUT PRICES.
- E. EXPORT ORDER BOOKS REMAIN STRONGER THAN TOTAL
ORDER BOOKS, BUT THE VERY RAPID UPWARD MOMENTUM
DURING THE EARLY PART OF THE YEAR HAS NOT BEEN
REGAINED.
- F. EXPORT PRICES ARE BEING SEVERELY CONSTRAINED BY
MARKET CONDITIONS AND WORSENERD PRICE COMPETITIVE-
NESS IS A MAJOR PROBLEM.
- G. INVESTMENT INTENTIONS ARE STRONG BY PAST STAN-
DARDS.
- H. CORPORATE LIQUIDITY HAS NOT IMPROVED DURING THE
LAST TWELVE MONTHS (AND MAY HAVE WORSENERD) DES-
PITE APRIL'S FORECAST OF AN IMPROVEMENT.

OF PARTICULAR INTEREST IN THE MORE DETAILED EXPLANA-
TIONS OF THE RESULTS ARE CBI'S CONCLUSIONS ABOUT PRICES,
COSTS AND INVESTMENT. THE BALANCE OF FIRMS EXPECTING TO
INCREASE AVERAGE DOMESTIC PRICES OVER THE NEXT 4 MONTHS
HAS FALLEN TO ITS LOWEST LEVEL SINCE APRIL 1973. PRES-
SURES ON COSTS HAVE ALSO EASED ALTHOUGH LESS STRIKINGLY.
WITH REGARD TO MANUFACTURING INVESTMENT, CBI EXPECTS A
7 PERCENT RISE (CHIDFLEJ SRPNRWS "REMARKABLY HIGH" GIVEN
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 18080 02 OF 04 031039Z

THE LEVEL OF DEMAND) IN VOLUME IN 1977 AND A 15 PERCENT
RISE IN 1978. HOWEVER, CBI POINTS OUT THAT INVESTMENT
INTENTIONS ARE "VERY MUCH WEAKER" AMONG FIRMS WITH FEWER
THAN 200 EMPLOYEES THAN THEY ARE AMONG LARGER FIRMS.
"SUCHRELATIVE WEAKNESS HAS BEEN EXPERIENCED THROUGHOUT
THE LAST TWO YEARS, DESPITE THE FACT THAT OVER THIS PERI-
OD THE SMALLEST FIRMS HAVE BEEN THE LEAST AFFECTED BY BE-
LOW CAPACITY WORKING, AND HAVE, IF ANYTHING, BEEN RATHER

FIRM ABOUT GENERAL BUSINESS PROSPECTS IN THEIR INDUSTRY."
TURNING TO THE EXTERNAL SECTOR, THE SURVEY INDICATES
THAT A LOSS OF PRICE COMPETITIVENESS IS BECOMING AN IN-
CREASING CONCERN TO UK EXPORTERS, WITH FULLY 61 PERCENT
OF RESPONDENTS CITING THIS FACTOR AS LIKELY TO HINDER
EXPORT ORDERS OVER THE NEXT 4 MONTHS.

ON THE BASIS OF THE SURVEY RESULTS, CBI CONCLUDES
THAT THE GOVERNMENT SHOULD APPROACH THE QUESTION OF
STIMULUS BEYOND THE OCTOBER 26 MEASURES WITH CAUTION.
THEY CALL FOR A REALISTIC APPROACH TO PAY BARGAINING IN
ORDER TO SUSTAIN BUSINESS CONFIDENCE, INVESTMENT PLANS
AND EXTERNAL COMPETITIVENESS.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 18080 03 OF 04 031041Z
ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 AID-05 CIAE-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-05 CEA-01 PA-02 PRS-01
DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /102 W
-----125539 031112Z /12

O R 031017Z NOV 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 9935
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 03 OF 04 LONDON 18080

3. GILTS. ALTHOUGH AWARE OF THE COSTS, MARKET SOURCES

SAY THAT THE GILT MARKET RECEIVED THE DECISION TO FLOAT STERLING POSITIVELY ON THE WHOLE. APPRECIATING STERLING MAY DAMPEN FOREIGN INTEREST IN GILTS; AND THE MARKET IS CONCERNED ABOUT THE ADVERSE IMPACT THAT APPRECIATING STERLING MAY HAVE ON U.K. EXPORTS. NEVERTHELESS, THE GOVERNMENT'S DECISION REFLECTED A DETERMINATION TO HOLD TO ITS MONETARY TARGETS; AND SUCH A POLICY IS REGARDED AS NECESSARY TO BRING DOWN INFLATION IN THE LONG RUN. IN ANY EVENT, THE PRICE OF THE LONGER MATURITIES AD-
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 18080 03 OF 04 031041Z

VANCED BY L-5/8 POUNDS PER ONE HUNDRED NOMINAL VALUE ON MONDAY AND HAD ADVANCED ANOTHER ONE PERCENT ON NOMINAL VALUE ON TUESDAY BEFORE THE RESULTS OF THE MINER'S VOTE WAS ANNOUNCED. AFTER THE MINERS' DECISION TO REJECT THE PROFFERED PRODUCTIVITY DEAL (SEE LONDON 18020) THE LONGS LOST 3 PERCENT ON NOMINAL VALUE, EVEN THOUGH THE POSSIBILITY OF SUCH A REJECTION HAD BEEN GIVEN CONSIDERABLE WEIGHT AND SOMEWHAT DISCOUNTED.

4. HM TREASURY ANNOUNCED THAT OFFICIAL RESERVES ROSE BY \$3,040 MILLION DURING OCTOBER, TO STAND AT \$20,211 MILLION. DURING THE MONTH, THE NET ACCRUALS OF FOREIGN CURRENCY BORROWING IN THE PUBLIC SECTOR UNDER THE EXCHANGE COVER SCHEME WERE \$4 MILLION.

5. EXCHANGE RATE AND GOLD EFFECTIVE

DATE	EXCHANGE RATE		
	EXCHANGE (DEC. 1971		GOLD
	RATE (\$) EQUALS 100)		(\$)
10/26	1.7767	62.6	162-5/8
10/27	1.7770	62.5	159-7/8
10/28	1.7772	62.5	161-1/8
10/31	1.8405	64.6	161-5/8
11/1	1.8435	64.4	162-1/8

CHANGE 10/25-11/1 UP 0.0366 UP 2.8 DOWN 1

6. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
10/26	0.25	0.75	1.23
10/27	0.30	0.80	1.30
10/28	0.32	0.88	1.42
10/31	0.40	0.92	1.42

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 18080 03 OF 04 031041Z

11/1 0.35 0.93 1.33
CHANGE 10/25-11/1 UP 0.10 UP 0.18 UP 0.23
(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
10/26	6-1/4	6-7/8	7-1/4
10/27	6-5/8	7	7-3/8
10/28	6-5/8	7-1/8	7-3/8
10/31	6-5/8	7-1/8	7-3/8
11/1	6-7/8	7-1/2	7-5/8

CHANGE 10/25-11/1 UP 3/8 UP 3/8 UP 3/8

8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
10/26	- 1-7/8
10/27	- 1-3/32
10/28	- 1-7/32
10/31	- 1-1/4
11/1	- 1-5/8

CHANGE 10/25-11/1 UP 15/32

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 18080 04 OF 04 031042Z
ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 AID-05 CIAE-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01 PA-02
PRS-01 DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00
/107 W

-----125561 031105Z /12

O R 031017Z NOV 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 9936
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

UNCLAS SECTION 04 OF 04 LONDON 18080

9. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
10/26	4-13/16	4-59/64	5-3/8
10/27	4-13/16	4-29/32	5-5/16
10/28	4-3/4	4-7/8	5-5/16
10/31	4-1/2	4-25/32	5-3/8
11/1	4-5/8	4-25/32	5-15/32

CHANGE 10/25-11/1 DN. 5/32 DN. 7/64 UP 1/32

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 18080 04 OF 04 031042Z

10. THE MINIMUM LENDING RATE REMAINED 5 PERCENT FOLLOWING FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE ROSE 0.0191 PERCENT AT THE AUCTION TO 4.4776 PERCENT AS 740.9 MILLION POUNDS IN BIDS WERE RECEIVED FOR THE 500 MILLION POUNDS OFFERED. THIS WEEK 450 MILLION POUNDS IN BILLS WILL BE OFFERED AS 400 MILLION POUNDS MATURE.

11. THIS REPORT HAS BEEN DELAYED BY UNOFFICIAL ACTION OF WORKERS IN THE POWER INDUSTRY WHOSE SELECTIVE BLACKOUTS INCLUDED AMEMB ON WEDNESDAY AFTERNOON.

BREWSTER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 03-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON18080
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770405-0057
Format: TEL
From: LONDON USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197711101/aaaadifg.tel
Line Count: 424
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c95eae0d-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 389402
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD OCT.27-NOV. 2 SUMMARY: THE CHANCELLOR\`S MINIBUDGET CORRECTED FOR FISCAL DRAG AND SHOULD PROVIDE A TOUCH OF STIMULUS
TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/c95eae0d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009